

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2014

Docket No. ACR2014

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO COMMISSION REQUESTS FOR ADDITIONAL INFORMATION
IN THE FY 2014 ANNUAL COMPLIANCE DETERMINATION**
(June 25, 2015)

In its Fiscal Year 2014 Annual Compliance Determination, issued on March 27, 2015, the Postal Regulatory Commission requested additional information from the Postal Service regarding several issues within ninety days. The Postal Service's responses to those requests follow. The response to the request regarding International Money Transfer Services (IMTS) is still being finalized, but will be filed shortly.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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POSTAL SERVICE RESPONSES TO ACD REQUESTS

1. Quality of Service Link to UPU Terminal Dues

The Commission directs the Postal Service to report within 90 days on its plans to improve on-time service performance scores for Inbound Letter Post. In its report, the Postal Service shall identify systemic problems preventing on-time service performance scores from achieving the UPU quality-of-service target each year and its plans to address these problems. FY 2014 ACD at 55.

RESPONSE:

The Postal Service has identified a number of systemic problems preventing on-time service performance of Inbound Letter Post from achieving the UPU target. The most significant problems include: insufficient time to process sacked letters prior to dispatch; increasing percentages of test letter and flat mail arriving from foreign posts in sacks versus trays; ground handler backlog causing induction delays; and timing issues related to the transportation of letters and flats to the Morgan Processing & Distribution Center (P&DC) from the JFK International Service Center (ISC) due to traffic.

The service performance scores are significantly impacted by the volume that is currently arriving in sacks. Letters and flats arriving in appropriately designated trays can be processed much more efficiently than letters and flats arriving in sacks. Approximately half of the letter and flat volume from foreign posts arrives at the JFK ISC to be inducted between 1400 and 1700. While this leaves enough time for letters and flats in appropriate designated trays to be scanned and prepped for dispatch for processing, it does not leave enough time for mail arriving in sacks to meet the current tag time of 1700. Letter and flat mail arriving in sacks from foreign posts must be dumped, culled, faced, and placed into trays before it can be dispatched to the Morgan P&DC. The additional prep time required for mail arriving in sacks results in these

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letters and flats missing the processing window at the Morgan P&DC. These factors each negatively impact service performance. Moreover, these problems are compounded because the percentage of letters and flats coming in sacks has grown overtime.

The Postal Service plans to address these problems by working within the UPU to ensure that service expectations for inbound mail are consistent with actual practice. Specifically, the Postal Service plans to work within the UPU Postal Operations Council (POC) Quality Link User Group (QLUG) to propose appropriate changes to critical tag times to account for actual operational practice. The Postal Service will also work to develop proposed amendments to the Letter Post Regulations to require that posts use the proper receptacles (letter trays and flat trays for format-separated mail exchanges) and to add an additional day of service for sacked letter and flat volume.

In addition to efforts at the UPU, the Postal Service plans to change its transportation schedules from the JFK ISC to the Morgan P&DC to better account for traffic and congestion issues. The Postal Service will also be piloting several initiatives at the JFK ISC to expedite the handling of sacks as much as possible. Finally, the Postal Service has worked with the Port Authority, Customs and Border Patrol (CBP), airlines, and ground handlers in order to alleviate backlog and improve ground handler induction of mail at the JFK ISC.

The Postal Service will continue to work towards improved service performance scores

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without UPU changes to the extent possible. However, the Postal Service also believes that work within the UPU is necessary to ensure that service expectations for inbound mail are consistent with actual practice.

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2. Market Dominant International Products Consisting of NSAs

The Commission directs the Postal Service to report within 90 days on the following: the factors that caused the Royal PostNL NSA cost coverage at the UPU terminal dues to exceed the cost coverage at the negotiated rates; the extent to which the Postal Service incorporated knowledge of these factors into its financial model for the successor NSA that was the subject of Docket No. R2015-3; and whether the successor NSA with Royal PostNL will improve the Postal Service's net financial position during FY 2015. FY 2014 ACD at 57.

RESPONSE:

According to the Postal Service's analysis of the negotiated rates in the Royal PostNL NSA, compared to the respective 2013 and 2014 UPU terminal dues rates, the cost coverage of the negotiated rates actually exceeded the cost coverage of the UPU rates in FY 2014. Please see folder USPS-FY14-NP42 for this analysis, which compares the base rates in the Royal PostNL NSA with the UPU base rates. Any quality adjustment would apply equally to both the negotiated rates and the UPU rates.

With respect to the successor NSA, the financial model filed in Docket No. R2015-3 shows an improved net financial position for this NSA. As such, the Postal Service anticipates that the successor NSA will improve the Postal Service's net financial position during FY 2015.

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3. Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1.

For the successor NSA with Royal PostNL in Docket No. CP2015-18, the Commission directs the Postal Service to report within 90 days on the financial model's projected change in cost compared with the actual change in cost for mail processing, delivery, and other costs, and whether the successor NSA is expected to cover costs during FY 2015. The Postal Service shall provide financial workpapers to support any statements or analysis in its report. FY 2014 ACD at 82.

RESPONSE:

Please see folder USPS-FY14-NP42 for an updated financial model regarding the Royal PostNL NSA filed in Docket No. CP2015-18. This model contains the updated inputs requested by the Commission. With respect to whether the NSA with Royal PostNL filed in Docket No. CP2015-18 is expected to cover costs during FY 2015, the model reflects the Postal Service's current expectations based on FY 2014 costs (rather than FY 2013 costs contained in the initial model). Ultimately, the FY 2015 ICRA and volume data are necessary to evaluate the actual cost coverage.